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Opinion

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Social Security — A Crowning Achievement

Since its creation in 1935, Social Security has become one of our crowning achievements. But as America grows older, Social Security may be strained to the breaking point. Many Republicans see this as a chance to replace Social Security, wholly or partly, with private investments. Most Democrats believe there is no private investment that can duplicate Social Security, and want to save it as it is.

Social Security is the nation's retirement plan, in fact the only retirement plan for the majority of workers with no pension. Without its benefits, more than half would retire into poverty. But as the name, "Old Age, Survivors, and Disability Insurance," implies, Social Security is more than a retirement plan.

If you die before you retire, Social Security provides benefits to your dependents. Survivor benefits amount to $12 trillion in term life insurance.

If you become disabled before you retire, Social Security provides disability insurance; and if your disability lasts more than two years, there is Medicare. More than a third of the cost of Social Security goes to survivor and disability benefits. Those who claim we can get a better return on payroll taxes rarely mention these benefits, but they are integral to the program and would be hard to replace.

Other features also would be hard to find elsewhere. If you are blessed with a long life, you don't outlive your savings under Social Security. And if you live to age 85, your monthly benefit does not dwindle to half the purchasing power it had at age 65. It rises each year with inflation. If you are a surviving or divorced spouse, Social Security allows you to draw your spouse's benefits if they are greater than your own. And if Social Security is all you've got, you don't have to worry if it will be there. For sixty years it has never been a day late or a dollar short.

This is not to say that Social Security won't face problems in the future. When baby boomers begin retiring around 2010, Social Security will feel the strain. By 2013, Social Security will have to spend the interest it earns on government bonds to pay benefits. By 2025, it will have to start cashing in its bonds. By 2037, it will liquidate the last of its bonds, and payroll taxes coming in will cover 72% of benefits going out.

This is the picture drawn by actuaries who take a conservative view of the future. They assume that after 2015, the economy will slow to a growth rate of 1.5% a year, half its current pace. If the economy grows faster, the problem will be more manageable. But the problem is manageable in any event, if we act soon enough. We don't have to destroy Social Security to save it.

Those who say Social Security is broke have a solution that fulfills their prophecy. They propose to divert several percentage points of the payroll tax into individual accounts. For some this might be a better deal, but it will only hasten the day of reckoning for Social Security.

Social Security has always been a pay-as-we-go system. This generation's payroll taxes fund the prior generation's retirement, on the promise that the next generation will do the same. Right now, four-fifths of Social Security's revenues are paid out in benefits. Many "privatizers" say they would divert only the surplus, the one-fifth that Social Security does not need to pay current benefits. But by 2013, there will be no surplus. Social Security will need payroll taxes to meet its obligations, and will need surpluses to build up its reserves of Treasury bonds. These bonds allow Social Security to stay solvent from 2013 to 2037.

There is only one way Social Security can meet its obligations if payroll taxes are diverted into individual accounts. Borrowing. This is the Achilles heel of all proposals to privatize. To bridge the transition to a privatized system, the government has to borrow into the trillions.

If our object is to strengthen Social Security, the answer is not to borrow more but to save more, and Social Security is moving in that direction. Last year, the government ran a surplus without Social Security. The surplus in Social Security was not used to fund new debt but to pay down old debt by buying government bonds held by the public. If this practice continues, $3.7 trillion in outstanding bonds can be bought by 2013.

This will have two effects on Social Security. It will add $3.7 trillion to national savings and bring down interest rates, boosting growth and the solvency of Social Security. And since almost all debt held by the public will be bought up, when Social Security cashes in its bonds, the Treasury will be in good shape to pay.

Though far from a full solution, this is a step in the right direction. But it's possible only if the surpluses in Social Security are not tapped for private accounts.

Individual accounts are important, a key piece of this puzzle. But they should not be carved out of Social Security. They should be supplementary. The President has proposed new, tax-favored retirement accounts in his last two budgets. If we are in earnest about saving Social Security, some portion of the next tax reduction bill ought to be used to create new retirement accounts.

Once new accounts are passed, we do not have to look for what to do next. The last Social Security Advisory Commission made up a long menu of changes, any half dozen of which could make Social Security solvent. Some are unpopular, but would go over better if coupled with new ways to save for retirement. Some are controversial, like investing trust funds in stocks as well as bonds; but if the funds invested come from the general fund rather than payroll taxes, this, too, should be possible.

There are ways to make Social Security solvent for years to come. What’s lacking are not solutions, but the bipartisan will to get them done.

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